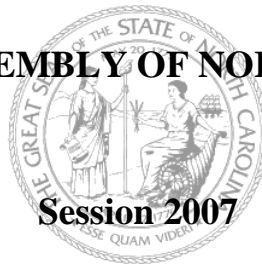


GENERAL ASSEMBLY OF NORTH CAROLINA



FISCAL ANALYSIS MEMORANDUM

[This confidential fiscal memorandum is a fiscal analysis of a draft bill, amendment, committee substitute, or conference committee report that has not been formally introduced or adopted on the chamber floor or in committee. **This is not an official fiscal note.** If upon introduction of the bill you determine that a formal fiscal note is needed, please make a fiscal note request to the Fiscal Research Division, and one will be provided under the rules of the House and the Senate.]

DATE: January 25, 2007

TO: Revenue Laws Study Committee

FROM: Barry Boardman
Fiscal Research Division

RE: House Bill 235

FISCAL IMPACT

Yes (X)

No ()

No Estimate Available ()

FY 2007-08

FY 2008-09

FY 2009-10

FY 2010-11

FY 2011-12

REVENUES:

See "Assumptions and Methodology"

EXPENDITURES:

POSITIONS

(cumulative):

PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED:

EFFECTIVE DATE:

BILL SUMMARY: This bill would simplify the State gift tax by eliminating the tax on many gifts, by eliminating different tax rates based on the relationship between the donor and donee, and by more closely tying the State gift tax to the State estate tax. This bill would become effective for gifts made on or after January 1, 2008.

ASSUMPTIONS AND METHODOLOGY: The gift tax generates on average \$18 million per year. The impact of this bill would be to lower the amount of revenues generated, but the impact would be less than the full \$18 million generated on average by the current gift tax.

The estate tax rates and taxable amounts are significantly different from the current gift tax. For example, the tax rate on the taxable amount of \$90,000 would be 0.8 percent using the estate tax rate schedule, and would generate \$720 in tax revenue. However, a \$90,000 taxable gift would be taxed at a rate of 4.0 percent when the donee is the lineal issue under the current gift tax, and would generate \$3,600 (the rate could be as high as 11 percent depending on the relationship with the donor).

Accurately assessing the fiscal impact from applying the State's estate tax rate schedule to gifts would require, at the minimum, historical data on the number and size of gifts taxed under the current North Carolina gift tax. Discussions with the Department of Revenue indicate this level of detailed, historical data on the gift tax is not compiled. Because that level of detailed data is not available, it is not possible to determine the impact from conforming the State gift tax to the estate tax.

SOURCES OF DATA: None

TECHNICAL CONSIDERATIONS: None